

Affin Hwang

Absolute Return Fund III

Quarterly Report
30 September 2021

Out **think.** Out **perform.**



AFFIN HWANG
CAPITAL

MANAGER
Affin Hwang Asset Management Berhad
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TRUSTEE
TMF Trustees Malaysia Berhad (610812-W)

AFFIN HWANG ABSOLUTE RETURN FUND III

Quarterly Report and Financial Statements As at 30 September 2021

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QUARTERLY REPORT

FUND INFORMATION

Fund Name	Affin Hwang Absolute Return Fund III
Fund Type	Growth
Fund Category	Mixed Assets (Wholesale)
Investment Objective	The Fund seeks to provide Unit Holders with long-term capital appreciation
Benchmark	8.0% per annum
Distribution Policy	The Fund is not expected to make distribution. However, incidental distribution may be declared whenever is appropriate

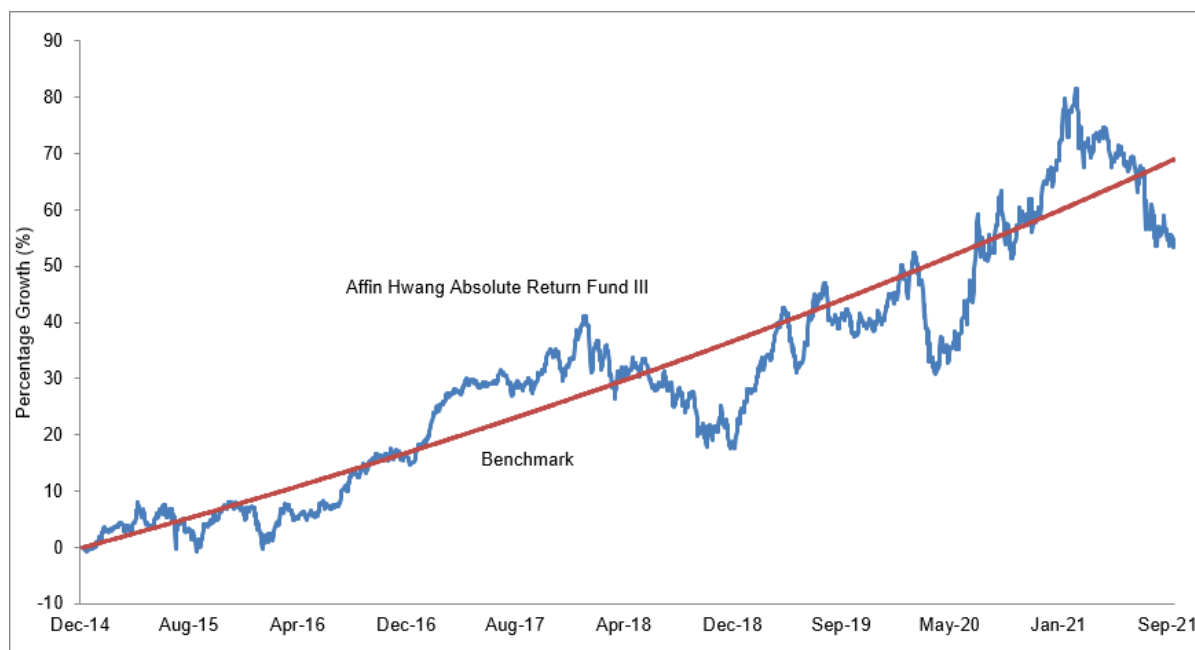
FUND PERFORMANCE DATA

Category	As at 30 Sep 2021	As at 30 Jun 2021
Total NAV (RM'million)	118.619	136.418
NAV per Unit (RM)	0.7672	0.8450
Unit in Circulation (million)	154.60	161.450

Performance as at 30 September 2021

	3 Months (1/7/21 - 30/9/21)	6 Months (1/4/21 - 30/9/21)	1 Year (1/10/20 - 30/9/21)	3 Years (1/10/18 - 30/9/21)	5 Years (1/10/16 - 30/9/21)	Since Commencement (9/12/14 - 30/9/21)
Fund	(9.21%)	(10.08%)	(0.52%)	20.35%	32.96%	53.44%
Benchmark	1.96%	3.93%	8.00%	26.00%	46.96%	68.98%
Outperformance	(11.17%)	(14.01%)	(8.52%)	(5.65%)	(14.00%)	(15.54%)

Movement of the Fund versus the Benchmark



"This information is prepared by Affin Hwang Asset Management Berhad (AFFINHWANGAM) for information purposes only. Past earnings or the fund's distribution record is not a guarantee or reflection of the fund's future earnings/future distributions. Investors are advised that unit prices, distributions payable and investment returns may go down as well as up."

Benchmark: 8.0% per annum

Past performance is not necessarily indicative of future performance and that Unit prices and investment returns may go down, as well as up.

Asset Allocation

Fund's asset mix during the period under review:

	30 September 2021
	(%)
Equity	71.64
Unit Trust	10.48
Cash & money market	17.88
Total	100.00

Strategies Employed

The Fund maintained its objective of providing its investors with long-term capital appreciation.

With the return of volatility in markets, the Manager maintained some level of cash holdings and will redeploy into the market with a focus on quality should market opportunity arises.

Market Review

Global equities started 2021 on a strong note as policy easing, and global vaccine rollouts went underway. At the start of January, US markets saw strong optimism. The storming of the US Capitol in early January had little effect over the broader market. However, a black swan event at the end of the month saw retail investors selectively targeting underperforming stocks (e.g. GME and AMC) that resulted in a short squeeze and pushing their share prices to new highs.

US equity markets ended the month of February with modest gains though sentiment was tested as surging bond yields and inflation fears took precedence. Whilst equities and bonds tend to move in opposite directions, the reality is that equity outperformance in the past year has largely come from growth-centric stocks and “stay at home” trades, which were facing short-term squeezes on their profit margins from rising rates. Another factor is the shift from growth to value, with value stocks performing better over the period.

Global equities endured a mixed session in March as US-China tensions boiled over dampening sentiment. With recovery still in a fragile state, global central banks including the Fed are expected to keep monetary policy accommodative to nurse the economy through the pandemic. Meanwhile, rising bond yields continue to unsettle markets. Banks are enjoying higher trading fees and lower provision costs as the economy gradually regains its footing.

Global markets shrugged off inflation fears to climb higher in June as investors start to buy-in to the Fed's dovish testimony. The S&P 500 and Nasdaq index rose, buoyed by stimulus optimism after early indication of bipartisan support of the proposed US\$1.2 trillion infrastructure bill in the US Congress. US Fed Chair, Jerome Powell testified in the House of Representatives to reiterate the central bank's view that inflation is transitory and that the FOMC will not rush to hike rates. The yield on the 10-year Treasury note tumbled as the Fed affirmed that it would not pre-emptively hike rates before signs of a recovery.

In Asia, the MSCI Asia ex-Japan index was marginally weaker in June as sentiment was dampened on geopolitical tensions and consolidation seen in China's economy. The Group of Seven (“G7”) nations and North Atlantic Treaty Organisation (“NATO”) held its annual summit with political leaders from US and Europe vowing to toughen its stance on China.

China had also reported weaker than expected retail sales and industrial production data. Industrial production grew 8.8% y-o-y in May, which came below consensus expectations of 9.2%. Weaker upstream production as well as a power shortage in the Yunnan province which is an aluminium production hub led to lower factory output. May retail sales which rose 12.4% y-o-y also fell market expectations of 14.0%. However, weaker economic data could push back any chance of further tightening in China as policymakers look to sustain growth.

Asia was dragged by the weakness in the Chinese market in July. Once again, China saw regulators cracking down on businesses, this time targeting the education sector. Authorities had banned the provision of holiday and weekend tutoring, and further said that they will no longer approve the establishment of new tuition centres. Instead, tutoring companies are being asked to register as non-profit institutions.

In Asia, the MSCI Asia ex-Japan index reversed course by climbing slightly higher. Regulatory noise still dominated headlines in China amidst calls for more oversight in the electric vehicle (EV) industry. The Fed is currently adopting a wait-and-see approach to the Delta variants impact and its implication on job data, highlighting that inflation is transitory and it was more harmful to react amidst the temporary surge in inflation.

The local equity market's performance was muted relative to regional peers. In the February result season, the tech sector was largely reporting earnings that beat expectations on the back of robust demand. Meanwhile, Finance Minister clarified in an interview that the government is not looking to impose capital gains tax on stocks. The government was mulling new taxes to widen its revenue base once the economy is on a more stable footing.

The Malaysian bond market saw an unwinding of “rate cut” bets at the end of January following BNM's announcement to keep interest rates unchanged at 1.75% highlighting that recovery of the local economy was underway. The shorter-end of the MGS curve saw yields rise whilst longer-tenured papers remained resilient that month.

Yields trended higher in tandem with US treasury movement in the quarter. Undoubtedly, the performance of the local bond market has been subpar since the start of the year; especially given the volatility in US Treasury yields, as well as the lack of support from EPF due to its ongoing commitment to the i-Sinar and i-Lestari programme. However, demand was seen returning in March, as more investors – including insurance players and asset managers – are seen nibbling into the market given the more attractive yield levels.

Fiscal deficit is expected to breach above the government's target of 6.0%. With the unveiled PEMULIH stimulus package, we could see the debt ceiling be raised to 65.0% from 60.0%. This could translate to more government bond supplies, which may put further pressure on Malaysia's sovereign rating.

On the monetary policy side, Bank Negara Malaysia (“BNM”) kept Overnight Policy Rates (“OPR”) at 1.75% in its monetary policy meeting in July. The central bank remained slightly optimistic on Malaysia’s growth outlook on the back of various support measures in place, vaccine rollouts, as well as stronger export numbers.

Political risks abated slightly with the appointment of Datuk Seri Ismail Sabri Yaakob as the 9th Prime Minister after securing the majority support of 114 MPs. The next Parliament sitting is slated in September which Datuk Seri Ismail Sabri will face a test of majority support through a vote of confidence. With political stability expected until the next General Election (GE) due by 2023, the local market could see further support on the back of continued vaccination roll-outs. The gradual reopening of more economic sectors also point to economic growth improving in the coming quarters.

During its quarterly GDP briefing, BNM said that Malaysia’s GDP grew 16.1% y-o-y in the 2Q’21, although it contracted 2% on a q-o-q basis. The central bank also revised its full-year GDP growth forecast for Malaysia to between 3% and 4%, from the previous forecast of between 6% and 7.5% for 2021.

Prime Minister Datuk Seri Ismail Sabri Yaakob unveiled his cabinet line-up with familiar faces at the helm. Foreigners turned net buyers in the last week of August with net inflows rising to the tune of RM960 million which is the strongest weekly inflow since 2019.

On a separate note, Bank Negara Malaysia is slated to hold its next Monetary Policy Committee meeting on 9 September 2021. Despite recently revising its 2021 GDP forecast to a lowered range of 3.0-4.0%, we expect the central bank to keep rates unchanged at 1.75% amid several supportive drivers including: (i) healthy vaccination rollouts, (ii) robust external demand, and (iii) gradual reopening of sectors and economies.

Investment Outlook

Global markets have rallied sharply from their lowest, supported by fiscal and monetary stimulus. The economy is still recovering, albeit at a slow pace, as consumers’ confidence return. Recovery plays will be the most obvious theme for the year of improving macroeconomic conditions and the inevitable rollout of vaccines has everyone looking to the future and letting go of 2020’s miseries. We have already seen the rotation from growth to value take place in the start of 2021.

Earnings momentum will continue in 2021 with earnings growth projected to rise in Asia ex-Japan. Key sectors leading the recovery include the energy, consumer discretionary and industrials. Though, this is tempered by moderately higher valuations which has crept up above historical averages. Liquidity conditions remain positive and with earnings visibility from Asian companies that are riding along a China-led economic recovery, Asia continues to be an ocean of growth potential as the region continues to grow. Selected Chinese consumer names which are less likely to be pressured by regulatory headwinds were deemed more favourable.

Back home, economic recovery continues to progress as international borders slowly start to reopen. On COVID-19 developments, over 90% of Malaysia’s adult population has been vaccinated. From a bottom-up perspective, the domestic focus will be on the recovery beneficiaries and exporters in the technology and EMS segment which have strong earnings visibility in the near term as well increasing demand. Weights in politically sensitive stocks have also been trimmed as the situation remains fluid.

ESG funds have also been gathering plenty of interest and we will expect this investor shift to ESG-focused funds to be more commonplace across the industry. The Biden administration’s foray into building stronger climate change initiatives also signals a shift for the investment industry as this will generate more opportunities across asset classes. The wider implications of this on the economy will take time to materialise, but will continue to be observed.

AFFIN HWANG ABSOLUTE RETURN FUND III

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2021

	Financial period ended 30.9.2021 RM	Financial period ended 30.9.2020 RM
INVESTMENT (LOSS)/INCOME		
Dividend income	317,758	339,989
Interest income from financial asset at amortised cost	11,715	16,210
Interest income from financial asset at fair value through profit and loss	-	12,223
Net loss on foreign currency exchange	(128,127)	(613,529)
Net (loss)/gain on financial assets at fair value through profit or loss	(11,841,320)	6,861,441
	<u>(11,639,974)</u>	<u>6,616,334</u>
EXPENSES		
Management fee	(315,304)	(280,882)
Trustee fee	(17,351)	(15,477)
Performance fee	-	(1,926)
Fund accounting fee	(3,000)	(3,000)
Auditors' remuneration	(2,269)	(2,269)
Tax agent's fee	(882)	(882)
Transaction costs	(296,331)	(333,079)
Other expenses	(29,843)	(46,148)
	<u>(664,980)</u>	<u>(683,663)</u>
NET (LOSS)/PROFIT BEFORE TAXATION	(12,304,954)	5,932,671
Taxation	-	-
NET (LOSS)/PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE FINANCIAL PERIOD	<u>(12,304,954)</u>	<u>5,932,671</u>
Net (loss)/profit after taxation is made up of the following:		
Realised amount	(5,035,108)	9,109,840
Unrealised amount	(7,269,846)	(3,177,169)
	<u>(12,304,954)</u>	<u>5,932,671</u>

AFFIN HWANG ABSOLUTE RETURN FUND III

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2021

	<u>2021</u> RM	<u>2020</u> RM
ASSETS		
Cash and cash equivalents	18,789,827	17,158,445
Amount due from brokers	4,875,828	-
Amount due to from Manager		
- creation of units	-	348,600
- management fee rebate receivable	10,360	2,456
Dividend receivable	26,751	94,159
Financial assets at fair value		
through profit or loss	97,401,434	97,435,670
Tax recoverable	181	-
TOTAL ASSETS	<u>121,104,381</u>	<u>115,039,330</u>
LIABILITIES		
Amount due to brokers	2,362,076	-
Amount due to Manager		
- management fee	98,830	94,676
Amount due to Trustee	5,436	5,207
Auditors' remuneration	2,269	11,269
Tax agent's fee	5,398	5,398
Other payables and accruals	11,773	13,174
TOTAL LIABILITIES	<u>2,485,782</u>	<u>129,724</u>
NET ASSET VALUE OF THE FUND	<u>118,618,599</u>	<u>114,909,606</u>
EQUITY		
Unitholders' capital	91,208,451	86,680,319
Retained earnings	27,410,148	28,229,287
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	<u>118,618,599</u>	<u>114,909,606</u>
NUMBER OF UNITS IN CIRCULATION	<u>154,607,000</u>	<u>148,998,000</u>
NET ASSET VALUE PER UNIT (RM)	<u>0.7672</u>	<u>0.7712</u>

AFFIN HWANG ABSOLUTE RETURN FUND III

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2021

	Unitholders' <u>capital</u> RM	Retained <u>earnings</u> RM	<u>Total</u> RM
Balance as at 1 July 2021	96,702,574	39,715,102	136,417,676
Total comprehensive loss for the financial period	-	(12,304,954)	(12,304,954)
Movement in unitholders' capital:			
Creation of units arising from applications	670,207	-	670,207
Cancellation of units	(6,164,330)	-	(6,164,330)
Balance as at 30 September 2021	<u>91,208,451</u>	<u>27,410,148</u>	<u>118,618,599</u>
Balance as at 1 July 2020	79,701,483	22,296,616	101,998,099
Total comprehensive income for the financial period	-	5,932,671	5,932,671
Movement in unitholders' capital:			
Creation of units arising from applications	9,257,291	-	9,257,291
Cancellation of units	(2,278,455)	-	(2,278,455)
Balance as at 30 September 2020	<u>86,680,319</u>	<u>28,229,287</u>	<u>114,909,606</u>

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